



H&R BLOCK®

May 7, 2014

The Honorable Charles Boustany, Chairman
The Honorable John Lewis, Ranking Member
U.S. House of Representatives
Committee on Ways & Means
Subcommittee on Oversight
1102 Longworth House Office Building
Washington, DC 20515

Re: May 7, 2014 hearing on Internal Revenue Service Operations and the 2014 Tax
Return Filing Season

Dear Chairman Boustany and Ranking Member Lewis:

On behalf of H&R Block, please accept this letter and the attached report for today's hearing record.

H&R Block is the world's largest consumer tax services provider, filing more than 625 million returns worldwide since 1955. Last year, we filed more than 22 million U.S. individual income tax returns — about 15 million returns in our offices and another 7 million through our do-it-yourself (DIY) offerings.

As the world's largest provider of consumer tax services, with both in person tax assistance and DIY software offerings, we have a unique perspective into tax filing trends, including increases in tax fraud and improper payments. To gain further insight into the growing problem of waste, fraud, and abuse in the tax system, we commissioned ORC International to conduct a study on consumer awareness and attitudes on the issues of tax fraud and prevention. We have attached the following report, which summarizes the results of this survey: *Consumer Tax Fraud: Sources & Solutions*.

We would be happy to answer any questions you, other Members of the Committee, or staff may have.

Thank you for your consideration.

Kathy Pickering
H&R Block's Vice President of Government Relations &
Executive Director, The Tax Institute at H&R Block

Consumer Tax Fraud: Sources and Solutions

Survey Findings

March 2014

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ABOUT THE TAX INSTITUTE AT H&R BLOCK

The Tax Institute at H&R Block is the go-to source for objective insights on federal and state tax laws affecting the individual. It provides nonpartisan information and analysis on the real world implications of tax policies and proposals to policymakers, journalists, experts and tax preparers. The Institute's experts include CPAs, Enrolled Agents, tax attorneys and former IRS agents. Building off more than 10 years of research and analysis from a specialized tax research group at H&R Block, the company launched The Tax Institute in 2007.

ABOUT THIS REPORT

This report presents the findings of a telephone survey conducted among a dual national probability sample of 1,005 adults comprising 505 men and 500 women 18 years of age and older, living in the continental United States. Results have a margin of error $\pm 3.1\%$ at the 95% confidence level. Interviewing for this combined landline and cell phone survey was completed during the period October 31-November 3, 2013 by ORC International. The national sample was weighted to ensure the results reflect the general population.

Additional Methodology Notes:

Figure 1: Percentages may not add to 100% due to rounding.

Figure 2: Percentages do not add to 100% because respondents were asked to select up to two options.

Figure 3: Percentages do not add to 100% because respondents were asked to select multiple options.

Figure 4: Represents percent of who said they strongly or somewhat support each statement.

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Letter to our readers:

The U.S. tax law is thousands of pages long, focused on credits, penalties and obtuse rules and regulations, which we at H&R Block decipher and interpret for our clients. For individuals and families, these tax laws manifest themselves on a much more personal level. To many the regulations may just be words and numbers on a page. To most people however, the tax law is a complex web of rules and forms to navigate each spring – holding with it hope and sometimes dismay. For most taxpayers their annual tax filing, whether they receive a refund or make a payment, is often the largest financial transaction they experience during the year. It has a significant effect on their financial outlook and is a deeply personal experience.

Because of the size of the typical tax refund – which is approximately \$2,700 according to IRS data – more and more taxpayers find themselves under assault from increasingly sophisticated thieves who file false tax returns under their names. Add this to the growing rate of credit card fraud and compromised Social Security numbers, consumers now have the added worry of someone stealing their tax refund. Even Attorney General Eric Holder is not immune to this as he found himself nearly the victim of tax fraud when two men tried to file a fraudulent tax return under his name this March. Those who have experienced this know full well the litany of paperwork, calls, ID checks and more that it takes to right such a wrong.

Tax fraud and improper payments – which consist of payments made due to deliberate fraud, confusion around complex rules, and basic math errors – are examples of several disturbing trends contributing to a rising level of waste, fraud and abuse in the overall U.S. tax system. Estimates of lost revenue are in the hundreds of billions of dollars. While the IRS Oversight Board has asked consumers how they feel about cheating, no one has asked the question “what can be done to address this?”

The discussion surrounding this problem, and how to solve it, mostly has been limited to tax wonks, policy experts and industry players. Until now. The Tax Institute at H&R Block worked with ORC International to field a national survey to help understand public appetite for grappling with this issue. The results were reassuring and encouraging. In sum, survey results suggest that consumers:

- Are willing to do more to help combat tax fraud;
- Acknowledge that the IRS, Congress, professional tax preparers, the makers of tax preparation software and taxpayers themselves are accountable for addressing fraudulent tax filings;
- Support requiring professional tax preparers to meet minimum training standards;
- Strongly back holding do-it-yourself software to minimum standards.

These results are heartening – consumers are willing to take simple, yet important steps, to preserve the integrity of our tax filing system, which relies largely on voluntary compliance. With billions of dollars lost to fraud and improper payments every year, we – consumers, the IRS and Congress – have the opportunity and frankly the responsibility to address this costly and unnecessary waste.

Kathy Pickering, Executive Director
The Tax Institute at H&R Block

SURVEY FINDINGS

Executive Summary

The Tax Institute at H&R Block commissioned a national survey to measure consumer awareness and attitudes on the issue of tax fraud and prevention. The survey found that:

- 1. Taxpayers are willing to do more to help combat tax fraud.** A large majority are willing to take a variety of actions to prevent fraud, whether answering more specific questions in their IRS filings, waiting a little longer for a refund or requiring consistent questions for all filers.
- 2. Consumers recognize that there is joint responsibility.** They agreed that it is incumbent on the IRS, Congress, professional tax preparers, the makers of DIY tax preparation software and taxpayers themselves to address fraudulent tax filings.
- 3. Consumers support requiring professional tax preparers to meet minimum training standards.** This reinforces the fact that consumers want to know the person they turn to for one of their biggest financial transactions of their year meets consistent and minimum standards for expertise.
- 4. Taxpayers who use DIY software/websites are strongly supportive of requiring minimum standards for those software/websites and requiring consistency in forms and documentation across all tax preparation methods.** Consumers indicated that creating this type of parity across all tax preparation platforms is important.

The survey found that U.S. consumers believe that falsely reporting dependents (48%) and income (45%) are the most frequent drivers of fraudulent income tax returns, more so than using a stolen identity to file a false claim (31%), falsifying tax breaks (26%) or tax credits (27%).

86% of consumers support requiring professional tax preparers to meet minimum training standards.

80% of consumers support requiring do-it-yourself (DIY) tax preparation software/websites meet minimum standards.

86% of consumers support requiring that the tax forms and documentation are the same whether using either a professional tax preparer or a do-it-yourself software/website.

61% of consumers would be willing to wait a little longer for their refund to help combat tax fraud; this willingness did not vary across income levels.

94% of consumers using DIY tax preparation software/websites support requiring that tax forms and documentation be the same for professional tax preparers and DIY software.

71% of consumers using DIY tax preparation software/websites would be willing to provide additional documentation with their return to help combat tax fraud.

69% of consumers using DIY tax preparation software/websites would be willing to answer additional questions on their return in an effort to battle tax fraud.

Detailed Findings

Consumer Awareness

U.S. consumers believe that falsely reporting dependents and income are the most frequent drivers of fraudulent income tax returns.

- U.S. consumers are most likely to think that falsifying dependents (48%) and falsifying income (45%) are the most likely to lead to fraudulent returns. Those were higher than using a stolen identity to claim a false refund (31%) and falsifying tax breaks (26%) and tax credits (27%).
 - Consumers who say falsifying income most often leads to a fraudulent return are likely to be:
 - Male (50%)
 - Those who have accidentally made false statements on their tax return (67%)
 - Those who have made mistakes on their tax return that the IRS didn't catch (68%)
 - Consumers who say falsifying dependents most often leads to a fraudulent return are more likely to be:
 - Generation Xers, between the ages 35-44 (58%)

Consumer Attitudes

Overall, consumers have favorable perceptions of tax preparers, particularly those that are regulated.

- They are significantly more likely to believe that fraudulent tax returns are generated from do-it-yourself (DIY) tax preparation software/websites (54%), compared to any tax preparers (36%).
- Only 1 in 10 (9%) think fraudulent tax returns are most likely to originate with specifically regulated professional tax preparers, and this is consistent across men and women.
 - Even users of DIY software are significantly less likely to blame regulated professional tax preparers than they do tax preparation software/websites when it comes to the sources of fraud
 - Only 9% of DIY software users attribute fraudulent returns to regulated professional preparers, while 48% say DIY software is the reason.

There is a tremendous amount of consumer support for minimum standards for both tax preparers and DIY software.

- 86% support requiring professional tax preparers to meet minimum training standards while almost as many support requiring DIY tax preparation software/websites to meet minimum standards (80%).
- More than four out of five (86%) also believe in requiring that tax forms and documentation to be the same when using a professional tax preparer or DIY software.
 - Support is even higher among the users of DIY software, with 94% expressing support for requiring that tax forms and documentation to be the same for professional tax preparers and DIY software.
 - Consumers in the highest household income tier (\$100K or more) are more likely to support stricter regulations, with 95% in favor of minimum training standards for professional tax preparers, and 95% also in favor of minimum standards for DIY software. In addition, 94% of those higher income consumers believe that that tax forms and documentation requirements should be the same for both in-person and DIY preparation.





Consumer Actions

Consumers say individual taxpayers themselves, along with the IRS, are most responsible for reducing tax fraud.

- Consumers are most likely to say the IRS is responsible for reducing tax fraud (41%) over Congress (20%), professional tax preparers (20%) and makers of DIY tax preparation software (17%).
- However, over one-third (37%) believe individual taxpayers are most responsible.
 - Women (23%) are just slightly more likely than men (16%) to put the responsibility on professional tax preparers.

General consumers are willing to do more to help combat fraud.

- Nearly all consumers (93%) are willing to take at least one action when preparing their income tax return in an effort to combat tax fraud. To do so, about two out three said they would:
 - Use a professional tax preparer regulated by the IRS (68%).
 - Provide additional documentation with their return (67%).
 - Answer additional questions on their return (65%).
 - Answer questions to confirm their identity when using do-it-yourself (DIY) tax preparation software or websites (64%).
 - Wait a little longer for the refund (61%).
 - This number did not vary dramatically by income level, with 62% of those making under \$35,000 saying they would wait, 59% of \$35,000-\$50,000, 61% of \$50,000-\$75,000, 63% of \$75,000-\$100,000, and 67% of those making more than \$100,000.
- Women (74%) are more likely than men (62%) to say they'd use a professional tax preparer regulated by the IRS to combat tax fraud.
- Millennials (18-34) (82%) are more likely than other generations to be willing to provide additional information on their returns.
- Those who have stretched the truth when preparing their tax return themselves or know someone who has tend to be more likely to be willing to wait a little longer for a refund (73% vs. 61% of general consumers) and answer questions to confirm their identity when using DIY sites (73% compared to 64% of general consumers) in an effort to combat fraud.

While consumers who prefer DIY software to prepare their taxes are not necessarily willing to give up their independence to combat tax fraud, these DIYers are open to requiring minimum standards for their software.

- Less than half (41%) of consumers using DIY software to prepare their taxes are willing to use a professional tax preparer regulated by the IRS to help combat tax fraud.
- However, nearly all (91%) of these DIY software preparers support requiring that the sites meet minimum standards.
- Specifically, a large majority of consumers using DIY software are willing to answer questions to confirm their identity when using the websites (84%), provide additional documentation with their return (71%) or answer additional questions on their return (69%) in an effort to battle tax fraud.

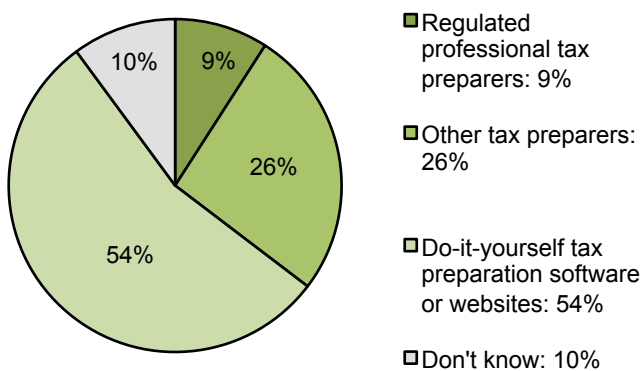


Keep in mind though, consumers who prepare their taxes completely by hand show the most resistance in taking actions that combat tax fraud.

- To combat tax fraud, those who complete their taxes on their own, completely by hand, are less likely to be inclined to provide additional documentation on their returns (57% compared to 67% of general consumers).
- This segment also holds professional tax preparers in a less favorable light.
 - They are more likely to believe fraudulent tax returns originated with tax preparers (47% vs. 36% of general consumers).
 - They are also less willing to use a professional tax preparer regulated by the IRS (53% vs. 68% of general consumers) in battling tax fraud.

FIGURES

Figure 1: When asked where consumers thought fraudulent returns were most likely to originate, the survey found:



*61% of respondents use a preparer and 39% self-prepare of which 26% use software and 13% do it by hand.

Figure 2: When asked who consumers think is most responsible for reducing tax fraud, the survey found:

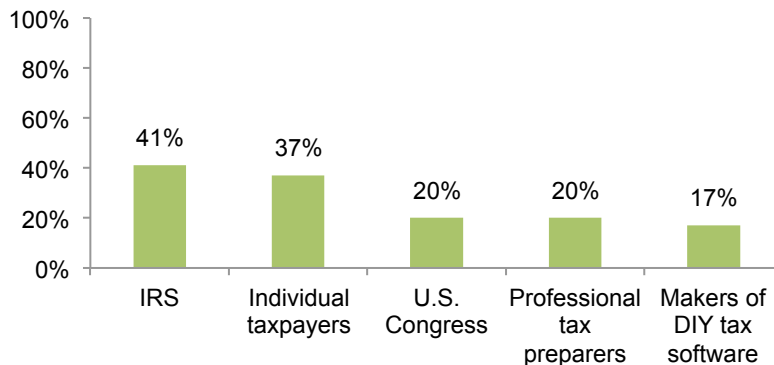


Figure 3: When asked what consumers were willing to do when preparing their income tax returns to help combat tax fraud, the survey found:

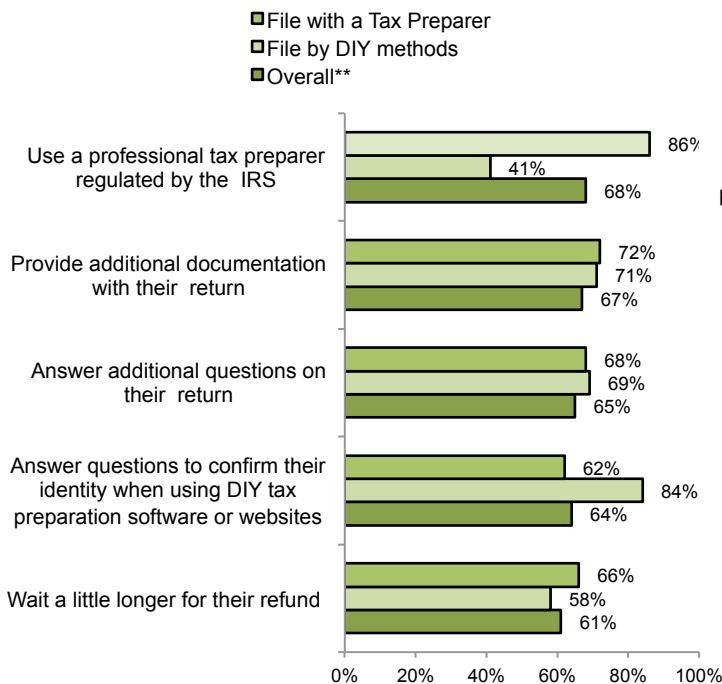
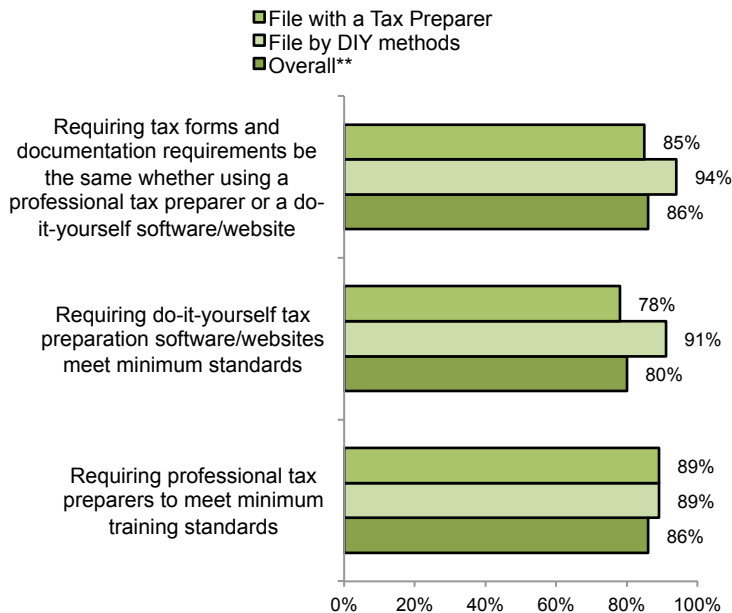


Figure 4: When asked whether they supported each of these statements, the survey found consumers supported:



** Overall includes all consumers: those who prepare entirely by hand, use DIY software/websites, use a professional preparer, work with a family/friend or do not prepare/file taxes each year.

SURVEY QUESTIONS

1. Which of the following do you think most often leads to a fraudulent income tax return? Choose top two.
 - Using a stolen identity to claim a false refund
 - Falsifying tax breaks
 - Falsifying tax credits
 - Falsifying income
 - Falsifying dependents
 - Don't know
2. To help combat tax fraud, which, if any, of the following are you willing to do when preparing your income tax return? Select all that apply.
 - Wait a little longer for your refund
 - Answer additional questions on your return
 - Provide additional documentation with your return
 - Use a professional tax preparer that is regulated by the Internal Revenue Service (IRS)
 - Answer questions to confirm your identity when using do-it-yourself tax preparation software/website
 - None of the above
 - Don't know
3. Where do you think fraudulent tax returns are most likely to originate?
 - Regulated professional tax preparers
 - Other tax preparers
 - Do-it-yourself tax preparation software/websites
 - Don't know
4. Who is most responsible for reducing tax fraud? Select up to two responses.
 - U.S. Congress
 - Professional tax preparers
 - Internal Revenue Service (IRS)
 - Individual tax-payer
 - Makers of do-it-yourself tax preparation software/websites
 - None of the above
 - Don't know
5. Which of the following do you think most often leads to a fraudulent income tax return? Choose top two.
 - Using a stolen identity to claim a false refund
 - Falsifying tax breaks
 - Falsifying tax credits
 - Falsifying income
 - Falsifying dependents
 - Don't know



6. How much do you support each of the following?
- Strongly support
 - Somewhat support
 - Don't support at all
 - Requiring professional tax preparers to meet minimum training standards
 - Requiring do-it-yourself tax preparation software/websites meet minimum standards
 - Requiring that the tax forms and documentation requirements are the same when using either a professional tax preparer or a do-it-yourself software/website
7. Which of the following statements are true for you? Please select all that apply.
- You have stretched the truth on my tax return
 - You know someone who has stretched the truth on their tax return
 - You have been a victim of identity theft
 - You know someone who has been a victim of identity theft
 - You have accidentally made false statements on my tax return
 - You have had to pay a fine for making an error on my tax return
 - You have made mistakes on your tax return that the Internal Revenue Service (IRS) did not catch.
 - None of the above
 - Don't know
8. Which of the following describes how you prepare and file your United States income tax return each year? Please select all that apply.
- You prepare your tax return completely by hand, on my own – no software, websites, or help from a professional, family member, or friend
 - You use a do-it-yourself tax preparation software/website
 - You use a professional tax preparer
 - You work with a friend or family member
 - Other, specify
 - You do not currently prepare and/or file my taxes each year
 - Don't know